

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 IO-14 NEA-10 SPC-03 AID-20 EB-11

NSC-10 RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 PA-04 USIA-15 PRS-01 DOTE-00

DRC-01 /179 W

----- 107658

P 280808Z DEC 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 0048

INFO AMEMBASSY KUALA LUMPUR PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/31/74

TAGS: EAID, EFIN

SUBJECT: PROPOSED ADB LOANS FOR KUALA LUMPUR-KARAK  
HIGHWAY PROJECT (MALAYSIA)

SUMMARY: ADB MANAGEMENT PROPOSES TWO LOANS TOTALING  
\$18.3 MILLION EQUIVALENT FROM ORDINARY CAPITAL  
RESOURCES TO GOVERNMENT OF MALAYSIA. OF TOTAL,  
\$6.8 MILLION IS SUPPLEMENTARY LOAN TO FINANCE  
FOREX PORTION OF COST OVERRUN ON PHASE 1 OF KUALA  
LUMPUR-KARAK HIGHWAY PROJECT FOR WHICH BANK LOAN  
OF \$13.4 MILLION WAS APPROVED IN NOVEMBER 1971,  
AND \$11.5 MILLION IS TO FINANCE FOREX COST OF  
PHASE 2 OF KUALA LUMPUR-KARAK HIGHWAY DEVELOPMENT,  
INCLUDING CONSULTANTS' SERVICES FOR CONSTRUCTION  
SUPERVISION. USADB RECOMMENDS FAVORABLE NAC ACTION.  
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END SUMMARY.

1. ADB DOC. R119-73 WITH ATTACHMENTS DESCRIBING  
PROPOSED LOANS POUCHED ADDRESSEES DEC. 24. BOARD  
CONSIDERATION SCHEDULED JAN. 10.

2. ADB MANAGEMENT PROPOSING \$6.8 MILLION SUPPLEMENTARY  
LOAN FOR PHASE 1 OF KUALA LUMPUR-KARAK HIGHWAY DEVELOPMENT  
PROJECT AND \$11.5 MILLION LOAN FOR PHASE 2 OF PROJECT,  
BOTH LOANS TO BE FROM ORDINARY CAPITAL RESOURCES  
PROCEEDS WILL FINANCE FOREX COST OF (A) PHASE 1 COST  
OVERRUN, WHICH INVOLVES CONSTRUCTION OF 18.5 MILES OF NEW  
HIGHWAY AND A TUNNEL AND (B) PHASE 2 DEVELOPMENT PROVIDING  
FOR CONSTRUCTION OF 14.5 MILES OF TWO-LANE HIGHWAY FROM  
TERMINUS OF PHASE 1 DEVELOPMENT; IMPROVEMENTS TO SHARP  
CURVES, PAVEMENT AND DRAINAGE IN ONE SIX-MILE STRETCH;  
AND CONSULTANT SERVICES FOR SUPERVISION OF CONSTRUCTION.  
PROPOSED TERMS ARE 23-YEAR AMORTIZATION INCLUDING 3-YEAR  
GRACE PERIOD, 7-1/2 PERCENT INTEREST FOR BOTH LOANS.  
AMORTIZATION PERIOD OF 23 YEARS INCLUDING 3-YEAR GRACE  
PERIOD FOR PHASE 1 SUPPLEMENTARY LOAN WILL SYNCHRONIZE ITS  
AMORTIZATION WITH THAT OF INITIAL LOAN FOR PHASE 1 PROJECT,  
FOR WHICH AMORTIZATION PERIOD WAS 25 YEARS, INCLUDING  
5-YEAR GRACE PERIOD. PHASE 1 AND PHASE 2 SCHEDULED SO  
THEY WILL BE COMPLETED AT SAME TIME, I.E., BY END OF  
1976. GOVERNMENT OF MALAYSIA TO BE BORROWER AND PUBLIC  
WORKS DEPARTMENT (PWD) OF FEDERAL MINISTRY OF WORKS  
AND POWER TO BE EXECUTING AGENCY.

3. MALAYSIA'S EXISTING TRANSPORT NETWORK GENERALLY  
MEETS REQUIREMENTS OF AREAS WHERE MOST ECONOMIC  
ACTIVITIES ARE PRESENTLY LOCATED. HOWEVER, SECOND  
MALAYSIAN PLAN (1971-1975) AIMS AT PROVIDING EFFICIENT  
TRANSPORT SYSTEM DESIGNED TO HELP REDUCE INCOME  
DISPARITIES BETWEEN REGIONS, TO FACILITATE ACCESS TO  
NEW LAND DEVELOPMENT AND SETTLEMENT SCHEMES IN AREAS  
WITH AGRICULTURAL POTENTIAL, AND TO ATTRACT INDUSTRIES  
AND COMMERCIAL ACTIVITIES TO SUITABLE LOCATIONS IN RURAL  
AREAS.

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4. KUALA LUMPUR-KARAK HIGHWAY, IDENTIFIED AS HIGH PRIORITY  
PROJECT BY UNDP/IBRD TRANSPORT SURVEY OF MALAYSIA (1969) AND  
ENDORSED BY BANK-FINANCED SOUTHEAST ASIAN REGIONAL  
TRANSPORT SURVEY, IS 51-MILE STRAIGHT PORTION ON FEDERAL HIGHWAY

ROUTE II, WHICH IS ONLY DIRECT ROAD CONNECTION ACROSS  
CENTRAL MOUNTAIN RANGE, AND HAS SUBSTANDARD CHARACTERISTICS

LIMITING ITS CAPACITY TO HANDLE FUTURE TRAFFIC VOLUMES. ROUTE II LINKS PORT KLANG (FORMERLY PORT SWETTENHAM) AND KUALA GYMPUR TO EAST-COAST TOWN OF KUANTAN. UPON COMPLETION IN 1977, BANK-FINANCED EAST-WEST HIGHWAY WILL PROVIDE SECOND ROAD LINK FACILITATING MOVEMENTS BETWEEN PENANG/BUTTERWORTH IN WEST AND KOTA BAHRU AND OTHER AREAS IN NORTHEASTERN COAST. SINGLE-TRACK RAILWAY LINE CROSSES CENTRAL MOUNTAIN ZONE, RUNNING FROM GEMAS (NEAR MALACCA) OBLIQUELY THROUGH RANGES AND THEN NORTH TO KOTA BAHRU. RECENTLY APPROVED

BANK LOAN FOR DEVELOPMENT OF DEEP-SEA PORT AT KUANTAN WILL EVENTUALLY SERVE LARGE PART OF EAST-COAST REGION WHICH CURRENTLY DEPENDENT FOR ITS EXPORTS AND IMPORTS ON PORT KLANG IN WEST. UP TO 60 PERCENT OF TRAFFIC VOLUME ON KUALA LUMPUR-KARAK HIGHWAY CONSISTS OF COMMERCIAL VEHICLES. WITH LAND DEVELOPMENT SCHEMES PROPOSED OR ALREADY UNDERWAY IN CENTRAL AREAS, TRAFFIC ON FEDERAL HIGHWAY ROUTE II EXPECTED TO INCREASE DESPITE DIVERSION OF PORTION OF POTENTIAL TRAFFIC TO KUANTAN

PORT AND TO EAST-WEST HIGHWAY TO NORTH UPON COMPLETION.

5. TWO-PHASED APPROACH WAS ORIGINALLY ADOPTED FOR KUALA LUMPUR-KARAK HIGHWAY PROJECT TO HELP ECONOMIZE TOTAL INVESTMENT AND MAXIMIZE ECONOMIC BENEFITS. PHASE 1 PROJECT, FOR WHICH BANK LOAN WAS APPROVED IN 1971, INVOLVES CONSTRUCTION OF NEW HIGHWAY OF 18.5 MILES TOTAL LENGTH AND IS PROGRESSING SATISFACTORILY, FOLLOWING INITIAL DELAY OF ABOUT SEVEN MONTHS IN SELECTION OF CONSULTANTS. DETAILED ENGINEERING DESIGNS ARE COMPLETED. TENDERS FOR PART OF CIVIL WORKS RECENTLY INVITED AND TENDER INVITATIONS FOR REMAINDER TO BE LIMITED OFFICIAL USE

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ISSUED AT LATEST BY MID-1974. THERE HAS, HOWEVER, BEEN SUBSTANTIAL COST OVERRUN, PRESENTLY ESTIMATED AT US\$6.8 MILLION IN FOREIGN EXCHANGE (AND M\$4.5 MILLION IN LOCAL CURRENCY), RAISING TOTAL COST FROM US\$23.60 MILLION TO US\$35.80 MILLION. COST OVERRUN ACCOUNTED FOR BY (A) INCREASE IN CIVIL WORKS QUANTITIES (ORIGINAL COST ESTIMATES WERE BASED ON CONSTRUCTION QUANTITIES DERIVED FROM PRELIMINARY ENGINEERING DESIGNS, AND COST OVERRUN DUE TO THIS FACTOR NOT RESULT OF CHANGE IN PROJECT'S SCOPE) AND (B) IMPACT OF CURRENCY REALIGNMENTS AND INFLATION. GOVT HAS AGREED TO FINANCE LOCAL CURRENCY COST OVERRUN FROM OWN RESOURCES, AND MANAGEMENT RECOMMENDS THAT BANK FINANCE FOREX COST OVERRUN. RECALCULATED PHASE 1 PROJECT'S ECONOMIC INTERNAL RATE OF RETURN REDUCED SOMEWHAT FROM 25 TO 23 PERCENT, WHICH CONSIDERED

TO BE STILL ECONOMICALLY JUSTIFIED.

NOTE BY OC/T: #AS RECEIVED.

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TO SECSTATE WASHDC PRIORITY 0049

INFO AMEMBASSY KUALA LUMPUR PRIORITY

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6. PHASE 2 DEVELOPMENT OF HIGHWAY PROVIDES FOR (A) CONSTRUCTION OF 14.5 MILES OF NEW TWO-LANE HIGHWAY ALONG A RELOCATED ALIGNMENT FROM END OF PHASE 1 DEVELOPMENT INCLUDING SMALL BYPASS OF 3.5 MILES; (B) REALIGNMENT AND IMPROVEMENT TO SELECTED STRETCHES OF EXISTING ROAD, TOGETHER WITH SPOT IMPROVEMENTS AT LOCATIONS SUBJECT TO FREQUENT FLOODING; AND (C) PROVISION OF CONSULTANT SERVICES FOR SUPERVISION OF CIVIL WORKS CONSTRUCTION. UNLIKE EXISTING ROAD, NEW HIGHWAY WILL PROVIDE IMPROVED OPERATING CONDITIONS AND ADEQUATE SAFETY FOR TRAFFIC DUE TO CONSIDERABLY REDUCED GRADIENTS, SUBSTANTIALLY IMPROVED SIGHT DISTANCES AND WIDER SHOULDERS. GEOMETRIC DESIGN STANDARDS FOR PROPOSED PROJECT HIGHWAY COMPARE FAVORABLY WITH STANDARDS OF AMERICAN ASSOCIATION OF STATE HIGHWAY OFFICIALS AND MINISTRY OF TRANSPORT OF UNITED KINGDOM. PROJECT HIGHWAY WILL HAVE ASPHALT-PAVED FLEXIBLE PAVEMENT DESIGNED TO CARRY HEAVY COMMERCIAL

VEHICLES WITH SINGLE-AXLE LOAD OF 24,000 POUNDS.

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7. TOTAL COST OF PROPOSED PHASE 2 DEVELOPMENT ESTIMATED AT \$21.0 MILLION EQUIVALENT. FOREIGN CURRENCY COMPONENT OF \$11.5 MILLION TO BE FINANCED BY BANK LOAN. LOCAL CURRENCY COMPONENT EQUIVALENT TO US\$9.5 MILLION (M\$21.85 MILLION) TO BE FINANCED FROM GENERAL REVENUE RESOURCES OF GOVT. APPROPRIATE ASSURANCES OF LOCAL CURRENCY AVAILABILITIES RECEIVED BY BANK. FOREX COMPONENT OF CIVIL WORKS ESTIMATED AT ABOUT 55 PERCENT OF TOTAL COST, ASSUMING CIVIL WORKS TO BE CARRIED OUT BY FOREIGN CONTRACTORS, AND INCLUDES FOREX COMPONENT OF LOCALLY PRODUCED CONSTRUCTION MATERIALS SUCH AS STEEL BARS, CEMENT AND FUELS. IF ANY PART OF CIVIL WORKS IS AWARDED TO LOCAL CONTRACTORS, FOREX COMPONENT WOULD BE APPROPRIATELY REDUCED.

8. CONSULTANTS CURRENTLY ENGAGED FOR DETAILED ENGINEERING AND SUPERVISION OF PHASE 1 CONSTRUCTION (AN ITALIAN FIRM, SAUTI, IN ASSOCIATION WITH MALAYSIAN CONSULTING FIRM, MINCO) ARE ALSO DOING DETAILED ENGINEERING AND PREPARATION OF TENDER DOCUMENTS FOR PHASE 2 IN INTEREST OF EFFICIENT AND ECONOMIC IMPLEMENTATION OF PROJECT, BANK PROPOSES, IN ACCORDANCE WITH PARA. 4.2 OF BANK'S GUIDELINES ON USES OF CONSULTANTS, TO CONCUR IN GOVT PROPOSAL TO NEGOTIATE DIRECTLY WITH PRESENT CONSULTANTS. CONTRACTORS FOR CIVIL WORKS TO BE ENGAGED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT. TO PROMOTE EFFECTIVE COMPETITION AND ENSURE PROJECT COMPLETION WITHIN ENVISAGED TIME SCHEDULE, CIVIL WORKS TO BE DIVIDED INTO THREE APPROPRIATE PACKAGES IN CONSULTATION WITH BANK.

9. WITHIN FEDERAL PWD -- THE EXECUTING AGENCY -- ROADS DIVISION WILL BE RESPONSIBLE FOR PROJECT IMPLEMENTATION. IN GENERAL, ROADS DIVISION FUNCTIONS EFFICIENTLY, BUT ITS OPERATIONS ARE TO SOME EXTENT CONSTRAINED BY SHORTAGE OF PROFESSIONAL STAFF. PROJECT MANAGEMENT OFFICE, HEADED BY SENIOR ENGINEER AND ESTABLISHED FOR PHASE 1 IMPLEMENTATION, IS SAID TO BE FUNCTIONING EFFICIENTLY AND IS EXPECTED TO ASSUME RESPONSIBILITY FOR PHASE 2. PROJECT HIGHWAY

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MAINTENANCE TO BE CARRIED OUT BY PAHANG STATE PWD UNDER DIRECT SUPERVISION OF FEDERAL PWD. GOVT HAS ASSURED (PARA 4 OF SIDE LETTER NO. 4) PROJECT HIGHWAY WILL BE MAINTAINED IN GOOD CONDITION AND WILL PROVIDE ADEQUATE FUNDS IN ANNUAL BUDGETS. IN THIS REGARD, DANISH CONSULTING FIRM (KAMPSAX) WAS RECENTLY ENGAGED TO CARRY OUT ROAD MAINTENANCE STUDY, WHICH IS EXPECTED TO BE COMPLETED AT END OF 1974. BEFORE IMPLEMENTATION OF STUDY, GOVT WILL DISCUSS WITH BANK THOSE ASPECTS SPECIFICALLY RELEVANT TO KUALA LUMPUR-KARAK HIGHWAY.

10. SINCE PHASE 1 COST OVERRUN NOT DUE TO ANY CHANGE IN AGREED PROJECT SCOPE (ALTHOUGH ADDITIONAL CIVIL WORK NECESSARY, SEE PARA 5 ABOVE) AND CURRENCY REALIGNMENT UNFORESEEN AND DUE TO CIRCUMSTANCES BEYOND CONTROL OF BANK AND GOVT, BANK RECOMMENDS APPROVAL OF SUPPLEMENTARY LOAN. BETTER CONDITIONS RESULTING FROM PHASE 2 HIGHWAY DEVELOPMENT EXPECTED TO INCREASE HIGHWAY CAPACITY, ALLOW HIGHER OPTIMUM VEHICLE OPERATING SPEEDS AND RESULT IN LOWER VEHICLE OPERATING EXPENSE. RECONSTRUCTION WILL BENEFIT POPULATION IN HIGHWAY'S SERVICE AREA AND, TOGETHER WITH BANK-FINANCED DEVELOPMENT OF KUANTAN PORT, WILL FACILITATE DEVELOPMENT EFFORTS IN EASTERN PARTS OF WEST MALAYSIA, IN LINE WITH GOVT'S SOCIAL AND ECONOMIC POLICY OBJECTIVES. PROJECT IS CONSIDERED TO BE TECHNICALLY AND ECONOMICALLY VIABLE, WITH INTERNAL RATE OF RETURN ESTIMATED AT 14.6 PERCENT. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST KUALA LUMPUR'S COMMENTS FOR NAC AGENCIES, INTO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.  
SULLIVAN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CONSTRUCTION, ECONOMIC DEVELOPMENT, HIGHWAYS, FOREIGN ASSISTANCE, BANK LOANS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 DEC 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** morefirh  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** MANILA  
**Handling Restrictions:** n/a  
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**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
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**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** morefirh  
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**TAGS:** EAID, EFIN, ADB  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005